INFORMED BUDGETEER

RECONCILIATION UPDATE

- As part of the Bipartisan Budget Agreement, and as defined by the FY 1998 Congressional Budget resolution, eight Senate Committees were instructed to report legislation to the Senate Budget Committee that would total $137.2 billion in spending reduction over the next five years.

- As of June 13, four committees had reported to the Budget Committee. Net savings over five years is estimated to be about $ 3 billion. 50% of committees are done; but only 2% of the savings required have been achieved.

Senate Reconciliation Status ($ in Billions, Preliminary staff scoring.)	
Committee	
Completed Action:	**5- year total**
Agriculture, Nutrition & Forestry	+ 1.5
Energy & Natural Resources	-0.01
Labor & Human Resources	-1.8
Veterans' Affairs	-2.7
Net deficit reduction:	-3.0
Upcoming Action:	**Mark-up Date**
Banking, Housing & Urban Affairs	6/18
Commerce, Science & Transportation	6/17
Finance (Spending)	6/18
Finance (Revenues)	6/19
Governmental Affairs	6/17

Senate Agriculture Committee:

- The Agriculture committee voted 16-1 to report legislation on June 10, establishing a 15% hardship exemption from the 18-50 work requirement for food stamp recipients with no dependents. In addition the Committee provided $910 million in funds for additional work slots.

- The Committee action meets requirements of the Agreement and meets the instruction to spend $1.5 billion over five years.

Senate Energy Committee:

- The Energy and Natural Resources Committee voted 20 to 0 to meet its $13 million reconciliation instruction on June 11.

- The Committee met its savings target by authorizing the leasing of excess storage capacity in the Strategic Petroleum Reserve facility. Unfortunately an additional provision proposed by the Committee authorized the spending of the reconciled savings starting in year six through ten of the Agreement.

- The added provision allows the Secretary of Energy to use the funds derived from leasing to purchase additional petroleum products after October 1, 2002.

- Although technically in compliance with the reconciliation instructions, the spending of the lease proceeds in the second five years does not conform with the objectives of the Agreement.

- The Energy Committee had originally drafted the language to begin the repurchase provision on October 1, 2007, outside the ten year budget window. However, at the insistence of the minority the repurchase provision was moved forward to FY 2003, year six of the Agreement.

Senate Labor Committee:

- On June 11, by a vote of 17-1, the Senate Labor and Human Resources Committee completed action on their reconciliation instructions, providing for student loan savings of $1.8 billion over the next five years.

- The legislation would recall $1.028 billion in guaranty agency excess reserves, and eliminate the direct loan subsidy for loan origination, for a five year savings of $160 million; and $604 million from the direct loan administrative cost spending account.
- The Labor Committee did not adopt the Budget Resolution's recommendation to repeal the mandatory vocational education appropriation for Smith Hughes but makes up the shortfall by recalling slightly more in guarantee agency reserves.

- The Labor Committee implements the intent of the Agreement to ensure that savings in student loan programs do " not increase costs, reduce benefits, or limit access to loans for students and their families."

- However, the Committee, by increasing savings in the guaranteed loan program, with no corresponding increase in savings in the direct loan program, is arguably in conflict with the Agreement's contention that the savings be "an equitable balance between the direct student loan program and the guaranteed student loan program."

Senate Veterans' Committee :

- On June12, the Veterans' Affairs Committee voted 7-0 to report legislation complying with the Agreement with savings of $2.7 billion over five years.

- The legislation would extend current provisions of law including: an extension of the Pension limitation on veterans living in Medicaid paid nursing homes, an extension of prescription drug co-pays and in-patient per diems for veterans with non-service connected disabilities and an extension of the COLA round down.

- The proposal also allows individual Veteran Integrated Service Networks (VISN) to retain for their use the receipts of the Medical Care Cost Recovery (MCCR) fund.

IN THE HOUSE:

House Ways & Means Committee (Revenue Provisions):

- The Ways & Means Committee reported the House tax reconciliation bill on June 13.

- The legislation contains a child credit that begins in 1998 at $400, and rises to $500 per child in 1999 and thereafter. It contains a modified HOPE scholarship tax credit, which would give a credit of 50% of the first $3,000 spent on post-secondary tuition and books, a $10,000 deduction for expenses paid through private or state sponsored education investment plans, penalty-free withdrawals from IRAs and other education tax relief which adds up to about $31 billion over five years.

- American Dream IRAs are created, which allow nondeductible contributions to earn interest tax-free. The Committee reduces the capital gains tax rate to 10 percent for taxpayers with income under $41,000 and 20 percent for other taxpayers, and begins indexing of capital gains in 2001.

- The Committee raises the unified estate and gift tax credit to $1,000,000 by 2007, and contains other estate tax provisions benefitting small businesses and family farms. Tax incentives to low income areas of the District of Columbia, a welfare-to-work tax credit, and capital gains relief for home sales are all provided.

- The gross tax cut is about $130 billion over five years; revenue is raised by $45 billion over five years for a net tax cut of $85 billion. The ten year tax cut is about $250 billion. The bulk of the revenue raised comes from extending airline ticket taxes and raising the international departure fee.

House Commerce Committee: (Medicaid & Children's Health):

- The Commerce Committee completed action on June 12 on the health portions of the reconciliation bill, within its jurisdiction.
- The Agreement called for $13.6 billion in net Medicaid savings over five years and $16 billion in new spending for children's

health. The net Medicaid savings target of $13.6 billion includes Medicaid's interaction with the Medicare reform plan. It is also supposed to include provisions for Puerto Rico and the District of Columbia, which were not approved by the Committee. The Medicaid costs of the legal immigrant provisions of the agreement are not included in the $13.6 billion target.

- Final CBO scoring is not yet available, but the Committee is close to meeting its target (Committee Chairman Bliley stated at the end of the markup that minor adjustments may be necessary to assure compliance with their reconciliation instruction).

Commerce Health Subcommittee Action
CBO Estimates ($ in Billions)

	2002	1998-2002
Medicaid: (Excluding Children's Health)		
Disproportionate Share Hospitals	-5.2	-13.3
Repeal of Boren Amendments	-0.5	-1.2
Repeal Cost-based Payments for FQHCs	-0.1	-0.5
Medicare part B premium subsidy- home health	0.2	0.5
Medicare interaction (Ways & Means)	0.5	1.0
Other	0.2	0.9
Subtotal, Medicaid	-4.9	-12.6
Children's Health:		
Medicaid: 12 month continuous coverage	0.2	0.7
Medicaid: Continued coverage- former SSI kids	0.0	0.1
Medicaid: Interaction w/CHAP	0.1	0.6
Child Health Assistance Program (CHAP)	2.9	14.0
Subtotal, Children's Health	3.2	15.4
Total, Medicaid & Children"s Health	**-1.7**	**2.8**

REDUCING INDEXING IS PRETTY EQUITABLE

- In May, CBO released a memorandum which examined the distributional income effects of modifying federal inflation adjustments. The table illustrates CBO's estimates of the first-year effects of reducing indexing in Social Security, Supplemental Security Income, veterans' compensation and pensions, federal civilian and military retirement and the federal income tax by 1.0 percentage point.

- The third column in the table below shows the average annual change in family income for each quintile as a result of a 1.0 percentage point change in indexing. Families in the lowest income quintile, earning an average of $8,406 per year, would see their annual income decline by $37. Families in the top quintile, earning an average of $93,250 per year, would see their annual income decline by $114 per year.

- The change in first quintile income represents a decline of four-tenths of one percentage point in annual income; the change in fifth quintile income represents a decline of one-tenth of one percentage point in annual income.

- The far right-hand column shows how much of the total change each income quintile would bear. The lowest quintile bears 11 percent of the total change; the highest quintile bears 35 percent of the total change.

EFFECTS OF REDUCING 1998 INDEXING BY 1%
(January 1997 Economic Assumptions, 1998 Income Levels & Law)

	Avg. change	Change in $	% Change	Share of change
1st Quintile	8,406	-37	-0.4	11
2nd Quintile	19,116	-62	-0.3	19
3rd Quintile	29,673	-53	-0.2	16
4th Quintile	42,994	-66	-0.2	19
5th Quintile	93,250	-114	-0.1	35
All Families	38,22	-66	-0.2	100

SOURCE: Congressional Budget Office. NOTES: Families ranked by adjusted family income. Income figures after taxes.

BYRD RULE BUDGET QUIZ

It's Reconciliation time, and that means the Byrd Rule is in full flight. There have been many rumors floating around the Senate that because this Reconciliation bill will implement the Budget Agreement, the Byrd rule will not be fully enforced. This is false (the one exception being the point of order which will lie against the 2nd Reconciliation bill). The *Bulletin* suggests all informed budgeteers take this budget quiz to make sure they are up to speed on Byrd rule points of order.

QUESTION: How many votes are needed to waive a Byrd Rule point of order?

ANSWER: The Byrd Rule (section 313 of the Budget Act) establishes a 60-vote point of order in the Senate against "extraneous" provisions in the reconciliation bill (or amendments offered to it). Subsection © applies that point of order against provisions in a reconciliation conference report.

QUESTION: How is a provision determined to be extraneous?

ANSWER: The presiding officer will determine (with the advice of the Senate Parliamentarian) that a provision of reconciliation legislation is extraneous if it:

A. produces no change in outlays or revenues (unless it is a term or condition of a provision that does produce a change in revenues or outlays);

B. increases the deficit, if the committee reporting it fails to achieve its reconciliation instructions;

C. is not in the jurisdiction of the committee reporting it (with some exceptions); or

D. produces changes in outlays or revenues "merely incidental" to the non-budgetary components of the provision;

E. causes the committee's work product to worsen the deficit in any out-year beyond the years reconciled;

F. changes Social Security.

QUESTION: What happens if a Byrd Rule point of order is sustained against a conference report?

ANSWER: If the Presiding Officer sustains a Byrd Rule point of order against a provision in a conference report, that provision or provisions is "stricken" from the conference report. The Senate ultimately votes on what remains. If this occurs and the House has already agreed to the Conference report, then the House must vote again on the stripped down version.

QUESTION: Between the years 1985 and 1994, how often has a Byrd Rule point of order been sustained, and how many times has it been waived?

ANSWER: In those years, eleven Byrd Rule points of order were sustained against provisions in reconciliation bills or amendments offered to reconciliation bills. The Senate has waived the Byrd rule on three occasions.

SOURCE: The Senate's "Byrd Rule" Against Extraneous Matter in Reconciliation Measures, CRS, Table 2, pp.15-20.